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STOP KIDDING US

Raise taxes? "Only as a last resort," says Dukakis. "No taxes, period," insists Bush. But everybody knows that for the deficit to come down, taxes must go up. Here's the least worst way to do it.

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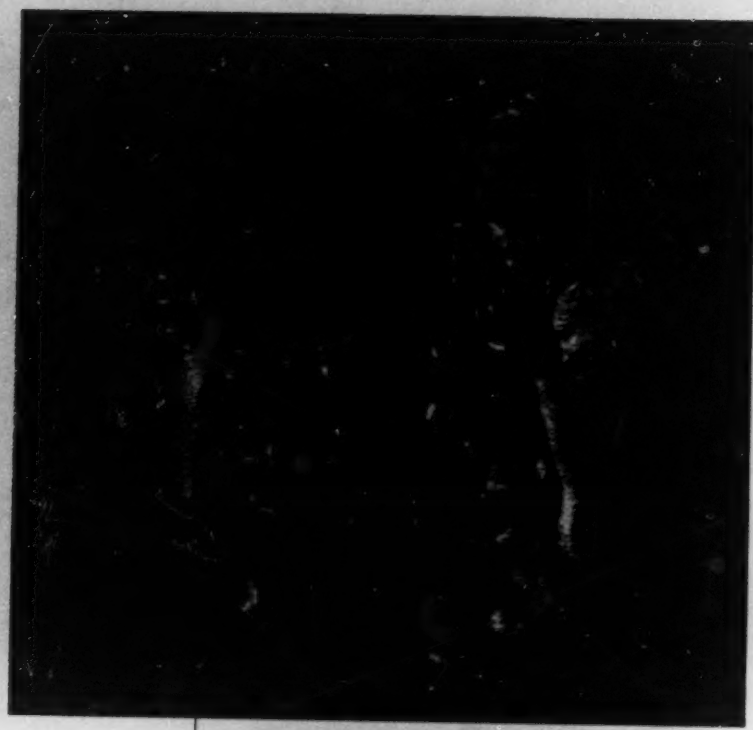
FORTUNE



It is up to Michael Dukakis and George Bush to produce a popular mandate for cutting the deficit.
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COVER: Alex Quesada of Matrix took the photographs of Michael Dukakis and George Bush.

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A message to presidential candidates George Bush and Michael Dukakis: It's time to tell us the truth. Short of a miracle, the only way to rid ourselves of the $150 billion budget deficit is to cut spending and increase taxes. For everybody's sake, let's get realistic. *by Ann Reilly Dowd*

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Just about every other country has adopted a national value-added sales tax to bring in more money. So why should the U.S. be any different? It offers maximum gain at minimum pain. *by Andrew Kupfer*

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"The Pentagon procurement probe is this summer's relief act for the white-collar defense bar."

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"They were tough times, believe me. For a while there, I thought it was all over."

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"We may not do anything 1,000% better. But we do 1,000 things 1% better."

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"It's not just pictures of good-looking women, you know?"

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"He does flit around and land like a bee on you at inopportune times."

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"Underwater, you realize that you depend on everyone else not just for your livelihood but for your life."

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Behold the free-electron laser. It began as a military dream: The Strategic Defense Initiative program financed research to build something that could zap enemy missiles. That hasn't worked so far, but the lasers are markedly more versatile than their conventional civilian cousins. Even though each of these devices costs $2 million and requires tons of cement shielding, with engineering improvements they may work revolutions in medicine, microelectronics, and the manufacture of chemicals. *by Anthony Ramirez*

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"Eccentric" isn't the only thing they call the man who battled long odds to grab 382 prestigious U.S. department stores. Some go so far as to call the flamboyant new proprietor of Bloomingdale's, Burdines, and Jordan Marsh "Ivan the Terrible" as well. *by Kate Ballen*

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KOREA: TOMORROW'S POWERHOUSE 74

The Land of the Morning Calm doesn't always look that way, as this photographic tribute to the many faces of its people shows. They are the hardest working on earth, and thanks to them the economy has gone from torpor to triumph. Despite political tensions, Koreans are taking a break next month to throw a 16-day, $3 billion extravaganza: the Summer Olympic Games. Congratulations! *by Louis Kraar*

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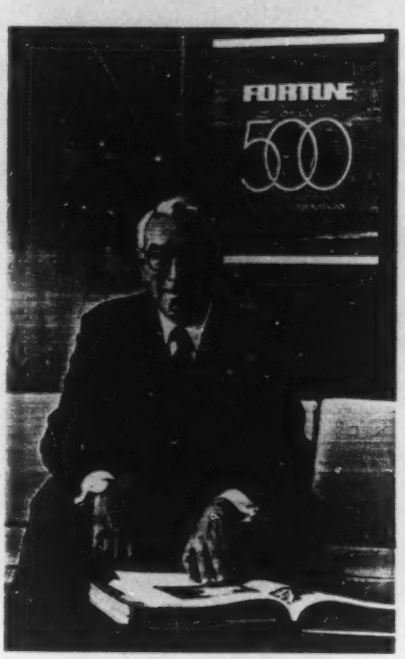

Edward Patrick Lenahan: 1925-88

I REALLY WISH you had had the chance to meet Pat Lenahan, the wittiest man I've ever encountered. Thousands of people in business and journalism treasured him as an excellent executive of unusual grace, charm, and intelligence. Pat served two terms as publisher of FORTUNE. This double stint, he quipped, qualified him as Time Inc.'s only born-again publisher. All of us who knew Pat have always seen it somewhat differently. We believe we were twice lucky. We have thought about that quite a bit lately, since Edward Patrick Lenahan died of cancer on his 63rd birthday.

The publisher is the chief executive of this magazine's business side, responsible for all non-editorial activities—advertising, circulation, marketing, public affairs. FORTUNE fared well under publisher Lenahan. The years 1973 to 1975 were difficult for all magazines, yet FORTUNE managed to increase its ad revenues slightly. And from 1979 to 1984, they soared 128%. (Pat served as Time Inc.'s treasurer from 1975 to 1979.)

"The great grease pit of commerce" is how Pat once described publishing. But in reality he *believed* in business, and rejoiced in the quality of character of most businessmen and businesswomen whom he met.

"Their range of interests never ceases to amaze me," he said in a 1984 speech at the University of San Diego's business school. He spoke of the obligations business has to society. But, he said, "Remember the story of a certain Sunday school teacher. She asked her class how they could secure forgiveness from sin. A hand shot up and a child responded, 'First you have to sin.' " After the laughter, Pat added: "I encourage you to be for good works on the part of your business. But first you have to make a profit."

He delivered memorable stingers on occasion, reserving the real barbs for his bosses. A Time Inc. president once fished for compliments on a new blue suit. Pat zinged: "You look like a Bulgarian used-machine-gun salesman."

A onetime Jesuit seminarian who enlisted in the Seabees in World War II, graduated from Harvard, and joined FORTUNE as an ad salesman in 1955, Pat was a practicing intellectual. His definition of a "good" weekend was to read six books without changing from his robe. A "great" weekend was one where he didn't even get up. From one of those beloved books came the text for the program at his memorial service. "Wouldn't it be lovely to have it all to do over again?" former British Prime Minister Harold MacMillan asked Field Marshal Lord Alexander toward the end of their lives. "Oh, *no*," shot back the old soldier. "We might not do *nearly* so well."

To Pat's family—his wife, Lois, and their four children—we say thank you for sharing him with us. We are particularly proud that a daughter, Elizabeth, is our assistant international advertising director. The Lenahan tradition lives on.

Marshall Loeb
MANAGING EDITOR

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arrested for driving under the influence. The companies expect the gadgets to catch on among trucking companies and other fleet operators. A bill is pending in New York to permit putting interlocks in school buses.

Though the price of the devices is sobering—about $500 each—drivers can save on insurance. The **Moore Group** in Atlanta offers a 15% to 20% discount on some coverage in three states to drivers that install a Guardian interlock system. **– Carol Davenport**

SCRAMBLING FOR 4%

■ New international capital requirements will give regional banks a leg up in the U.S. at the expense of most money center banks. Designed to shore up the world financial system, the rules call for banks' core capital to equal 4% of assets by 1992. The regionals average 6.45%, while the big banks, at 3.53%, must raise $10 billion in 3½ years, according to IBCA Banking Analysis Ltd. in London.

Most can meet the standards by retaining earnings, if they don't have to make further bad debt allocations for Third World loans. But the weakest—**BankAmerica**, **Chemical**, **Continental Illinois**, and **Manufacturers Hanover**—will be forced to shrink as well, selling assets both to raise capital and to lower the base on which the 4% is calculated.

The adjustment has begun. Manufacturers Hanover sold its profitable consumer finance subsidiary, posting a gain of $290 million and removing $3 billion of assets from its balance sheet. **Chase Manhattan** sold its Dutch bank subsidiary.

The money center banks are going to miss opportunities to grow. Interstate banking regulations have hindered big bank expansion while helping regionals go shopping. Now capital rules will do the same. **– C.H.**

HOW MUCH CAPITAL THE BANKS NEED*

MONEY CENTER BANKS	Capital-to-asset ratio	Surplus (shortfall) in millions	Years to meet shortfall
J.P. Morgan	7.04%	$2,067	–
Bankers Trust	4.70%	$432	–
Citicorp	3.33%	($1,459)	2.0
Chemical	2.74%	($1,059)	4.3
Manufacturers Hanover	2.47%	($1,276)	5.6
BankAmerica	2.34%	($1,752)	N.A.
REGIONAL BANKS			
First Wachovia	7.88%	$639	–
Norwest	5.95%	$337	–
Bank of New England	4.98%	$277	–

*Capital-to-asset ratios calculated under new rules. Years to meet shortfall reflects retained earnings needed.

SOURCE: IBCA BANKING ANALYSIS LTD.

JEFFREY MAC—PICTURE GROUP

Van Harlow found risk-prone investors tend to be low on enzymes.

A BLOOD SAMPLE FOR YOUR BROKER?

■ Ready to plunge into penny stocks? Better to have your blood checked than your head examined. A new study at the University of Arizona has found that people with low levels of the enzyme monoamine oxidase (MAO) are more likely to take financial risks than those with higher levels. Essentially, the university's study is an extension of data that psychologists have known for years: that people who climb mountains or jump out of airplanes are low on MAO.

Van Harlow, an assistant professor of finance who conducted the study, took blood samples from 125 undergraduates and related the enzyme level to performance in a series of simulated auctions. He found that the men in his group tended to take higher risks than the women. This coincides with earlier findings by medical researchers that men often have less of the enzyme than women, younger men less than older men.

Most of the money for Harlow's study—about $24,000—came from the Research Foundation of the Institute of Chartered Financial Analysts, a 10,000-member organization of security analysts and portfolio managers. The members' interest in investor behavior is logical, but will getting into customers' blood also get into their wallets? **– C.G.**

LUNCH ON THE RUN

■ It's lunchtime in New York City, and harried office workers are getting a cheap bite at their favorite corner pushcarts. The customers like it, and the vendors are doing very nicely, thank you. Then one day along come the cops: Worried about pedestrian congestion, the city starts enforcing a largely ignored five-year-old law that bans peddlers from the most crowded corners. Faced with an outcry, Mayor Edward Koch would permit up to two per corner. He plans a lottery every two years to choose which of the city's 3,000 vendors get the choice locations.

The move has these noble entrepreneurs sounding a lot like CEOs at a convention of the National Association of Manufacturers. Complains Chris Ferencsik, owner of an 80-cart ice-cream chain: "Once you get the government involved, business is doomed to failure." Frank Cicio, president of the Big Apple Food Vendors Association and owner of eight hot dog carts, argues that food carts are no different from other types of businesses—it takes time to build a customer base. Under Koch's plan, a vendor could spend two years working up to a $300-a-week income and then have to start over, who knows where?

In the street vending game, New York City has the biggest action. A good hot dog vendor working six days a week can produce sales of about $60,000 a year and keep a quarter of that as profit. But other climates beckon. Ana Espinosa,

ance the budget. Players can pick their own spending cuts. No one has yet figured out a politically realistic way to beat the game: Balance the budget without raising taxes.

After the election the commission will hold hearings aimed at educating the public and the Congress. By December, Lewis and Strauss hope to rally a majority of the panel behind a bipartisan plan that would influence the new President's first budget. The commission probably will recommend a multiyear program of spending cuts and tax increases. The details will depend on the new President, who will appoint two members—a Democrat and a Republican—making it a 14-person group.

If Bush wins, the commission is more likely to endorse a package of big spending cuts and modest revenue increases, probably higher sin and gasoline taxes. If Dukakis prevails, the commission may recommend fewer spending cuts and more aggressive tax increases. One outside possibility: a combination of a value-added tax and reductions in the Social Security payroll taxes. Says a commission insider: "The idea would be to replace a very regressive [payroll] tax with a less regressive [VAT] tax. The combination would also raise money to reduce the deficit and take some money out of the Social Security surplus."

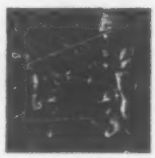
NO MATTER who wins, the commission is likely to recommend modest real cuts in defense, as well as increased burden sharing by the Allies. The group is also expected to call for some cutback in Social Security and other federal retirement programs, perhaps a one-year freeze on cost-of-living adjustments, or greater taxation of benefits. Another likely target is Medicare.

Whatever its final recommendations, the commission will offer the new President much needed political cover to do the unpopular and the unavoidable. Warns Minnesota GOP Congressman Bill Frenzel, a Bush adviser who serves on the commission: "Our greatest difficulty won't be reaching a consensus, but selling it to Congress."

The National Economic Commission can help sell the dismal details of deficit reduction to the people and through them to Congress. But it is up to George Bush and Michael Dukakis to produce a popular mandate for cutting the deficit. They can't do that unless they face reality and start talking straight about the most important economic issue of the presidential campaign. F

THE CASE FOR A CONSUMPTION TAX

Want to reduce the federal deficit, but don't want to go back to sky-high income tax rates? Read on. ■ *by Andrew Kupfer*



YOU KNOW they're going to do it. They say they won't, but they will—later, after they're safely elected. When their backs are up against the wall, when their best-laid plans are thwarted by selfish colleagues, when they've wrestled with their consciences about the burdens of the next generation, then the politicians will do what they figured they had to all along. They will raise your taxes.

But not all pain is created equal. You don't necessarily have to shell out 70% of your salary in income taxes to cure the budget deficit. There are other taxes that nibble at your wallet a little bit at a time: consumption taxes, which tax you when you spend.

State and local sales taxes are consumption taxes. So are excise taxes, such as the gasoline tax and the "sin" taxes on cigarettes and alcohol. Politicians, with some support from big business, are also considering a tax that, like soccer, people all over the world embrace, but few in the U.S. understand: a multistage sales tax called the value-added tax, or VAT.

To bring the budget deficit down from the stratosphere, Congress will give consumption taxes a big play next year. Washington blanches at the thought of tinkering with income tax rates so soon after the tumult of 1986's tax reform. Most excise tax rates, as nostalgia buffs know, are much the same as they were in the 1950s, so they make a ripe target. But raising them probably won't bring in enough to balance the budget. Hence, Ronald Pearlman, chief of staff of the congressional Joint Committee on Taxation, says it will be looking hard at a broad-based sales tax, including the VAT. You can bet that the National Economic Commission is too, as this panel of politicos and businessmen tries to dissolve the deficit.

REPORTER ASSOCIATE *Edward Prewitt*

The obvious place to start is with excise taxes, which help politicians justify taking money from voters. Energy taxes, for example, make such limited resources as oil more expensive, and sin taxes dissuade people from doing things that are bad for their health and sometimes dangerous to others (such as drunken driving). Americans have it easy, paying rates far below those in most other developed countries.

Deficit cutters usually say raising taxes on cigarettes and alcohol won't bring in much money. They're wrong. Simply adjusting the rates for inflation since the 1950s would raise an extra $20 billion (see chart, page 38). The U.S. has not raised beer and wine taxes since 1955 and has increased the tax on liquor only once since 1951. Or Congress could double the existing rates, and tax beer, wine, and spirits according to their alcoholic volume. Taxes on the alcohol in beer and wine work out to be much lower than the tax on liquor—a penny per ounce of alcohol in wine, a nickel in beer, and a dime in whiskey.

If Congress doubled the cigarette tax—since 1982 it's been 16 cents a pack—federal revenues would rise $3 billion a year. Doubling the liquor tax to about $2 a bottle and taxing wine and beer at the same rate as whiskey would produce an extra $13 billion a year. Oenophiles may argue that their drink, unlike hard liquor, is often an accompaniment to food and not consumed just for the alcoholic effect. But even after the tax adjustment, the levy on a bottle of wine would be only 60 cents a bottle. The British pay about $1.30.

ENERGY TAX preferences come with the territory. Southwesterners favor an oil import fee so they can raise the price of domestically produced oil. Northerners, who buy a lot of heating oil, hate the idea. So do many economists. Says Charles E. McLure Jr., senior fellow of the Hoover Institution at Stanford University: "Ordinarily the oil import fee is

pushed by people who assert an interest in energy independence for the U.S. What could be dumber than a policy to drain the U.S. first while making some of the wealthiest Americans wealthier?"

Far wiser to boost the tax on gasoline. A penny of tax per gallon yields about $1 billion in revenues; Americans buy about 100 billion gallons a year. (That formula would not necessarily hold if taxes go up so much that driving goes way down.) The tax would hit the wide-open spaces in the West hardest. It would also be regressive, since gas purchases eat up more of low incomes than high ones. But some economists argue that people who use the roads or buy goods shipped by road cause "negative externalities"—pollution and noise—and should pay for them. A gas tax wouldn't hurt manufacturers much: They account for only a small part of what the U.S. uses.

"I think a gas tax could carry a major part of the load in cutting the deficit," says John Shoven, chairman of Stanford's economics department. "You could get $40 billion from a 40-cent tax, and the U.S. price would still be low. Maybe you would get 0.5% more inflation, but it wouldn't cause a spiral. In fact, if the gas tax helped the government control the budget, inflation would recede." A more modest tax of 25 cents a gallon would raise the combined federal-state tax to an average of 40 cents. The price of gas, roughly $1.35 a gallon, would still be no more than its high in 1981 and way below what Europeans pay.

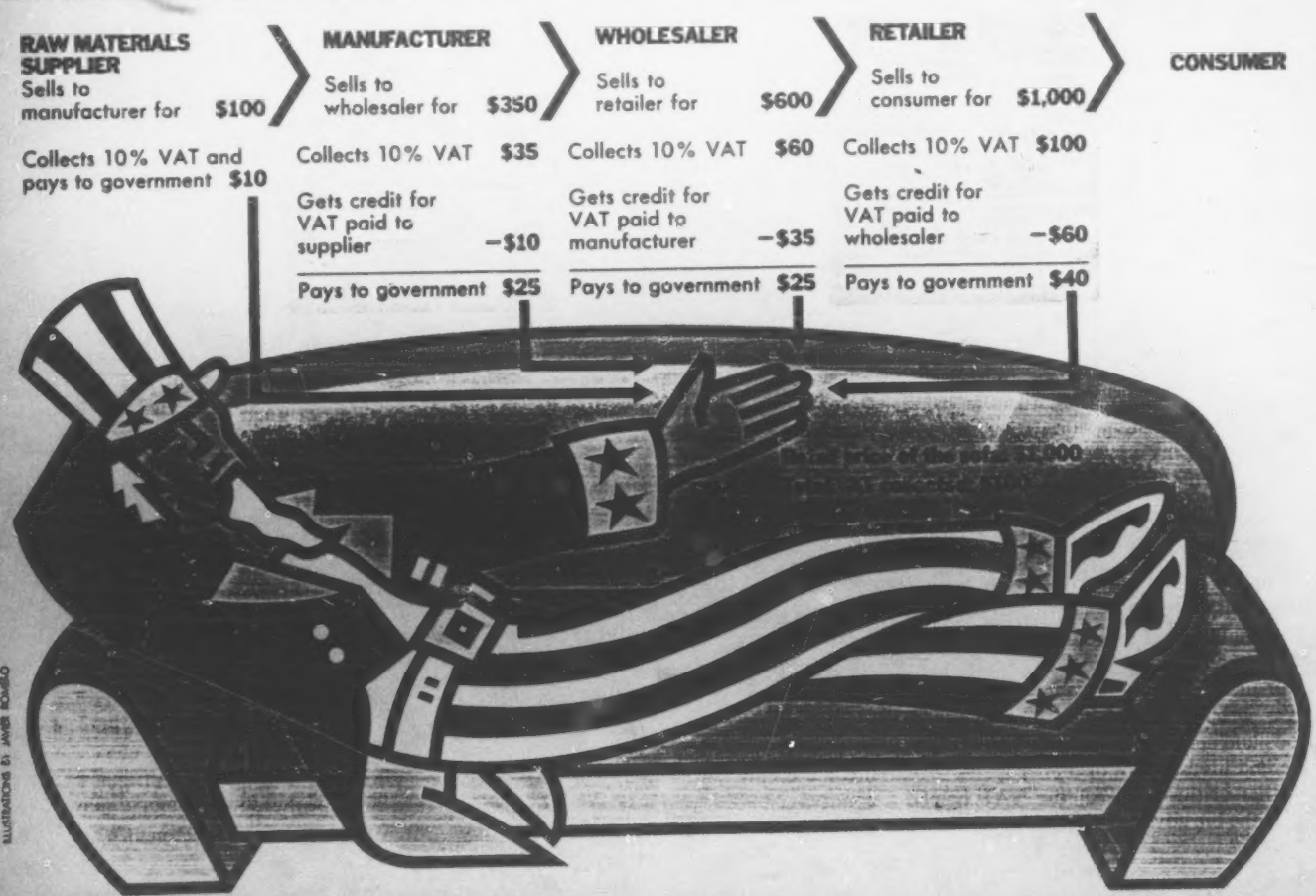
WITH $50 BILLION or so more a year from excise taxes, would the U.S. still need a VAT? Yes, if Congress does not include the Social Security surplus in figuring the budget deficit. It shouldn't, since the surplus is funded by separate payroll taxes, not general revenues. In 1993 the annual Social Security surplus will be about $100 billion. A federal budget deficit of $160 billion would be reported as only $60 billion then, and with some spending cuts and excise tax increases, Congress could declare victory and go home. Without the Social Security surplus, and very likely even with it, the government will not be able to close the budget gap—unless there is a broad-based tax increase.

Think of the VAT as sales tax collected in a different way. A retail sales tax is charged only at the final point of sale. But a VAT strikes transactions at each step in the process. Every company that makes or sells a product pays a tax on the materials it buys from its suppliers and collects a tax on whatever it sells to its customers. The company then gives the government the tax it has collected after taking a credit for the VAT it has paid suppliers. It thus remits a tax only on the value that it has added to a product (see illustration).

The VAT is better than a simple sales tax. One plus: It would be more resistant to chiseling. Did you ever buy something for cash and just wink at the sales tax? With a VAT, the tax man wouldn't lose all, having in his till the money turned over by everyone from the wholesaler on down to the supplier of raw materials. A VAT would also be kinder to exporters, who get a rebate for the VAT they've paid. (They don't currently get

HOW THE VAT WORKS

With a Euro-style 10% value-added tax, Uncle Sam would collect at each level of production. The sofa shopper ultimately pays the tax—but does not always see it.

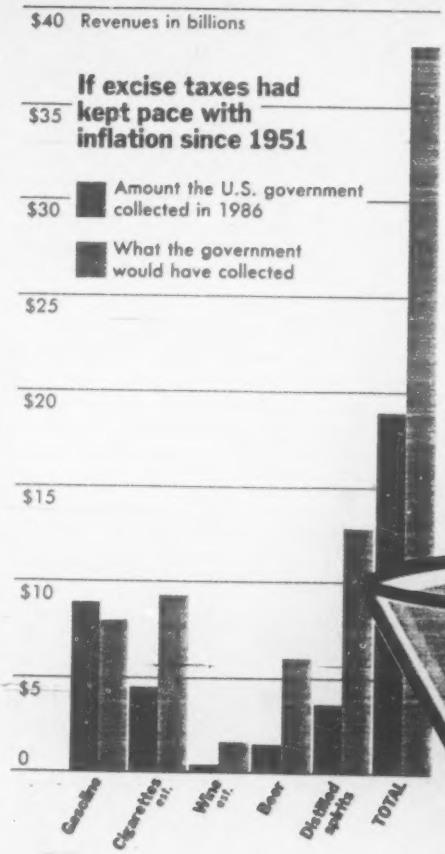

RAW MATERIALS SUPPLIER
Sells to manufacturer for $100
Collects 10% VAT and pays to government $10
MANUFACTURER
Sells to wholesaler for $350
Collects 10% VAT $35
Gets credit for VAT paid to supplier −$10
Pays to government $25
WHOLESALER
Sells to retailer for $600
Collects 10% VAT $60
Gets credit for VAT paid to manufacturer −$35
Pays to government $25
RETAILER
Sells to consumer for $1,000
Collects 10% VAT $100
Gets credit for VAT paid to wholesaler −$60
Pays to government $40
CONSUMER

ILLUSTRATIONS BY JAVIER ROMERO

rebates for sales taxes, so those payments are built into the price.) Finally, a VAT would catch service companies, which historically have been exempt from sales taxes. A service company—say a photocopying operation—would want to be part of the VAT system so it could claim a credit for the tax paid to suppliers of its paper and office equipment. To qualify for the credit, it would have to collect the VAT from customers and send it on to the government.

A VAT also works better than a single-stage tax imposed before the retail level. A tax on manufacturers, for example, would favor makers of imported goods at the expense of domestic producers. U.S. distributors of foreign-made goods would pay a tax based on the price at the port; subsequent costs for advertising and distribution would be tax-free. But many American manufacturers do their own advertising and distribution; those costs are built into the prices they charge retailers and would be hit by the tax. (U.S. companies that sell through distributors would be on equal footing with the foreign manufacturers.)

Applying a levy at the wholesale level would tax what the U.S. distributors of foreign goods escape in a single-stage manufacturers' tax. But it would cause other problems. As a rule, commodities have a lower retail markup than luxuries, so a wholesale tax would add more to the eventual price of necessities than it would to extras—a highly regressive arrangement. It would also give capital an artificial signal to move into high-margin businesses.



GETTING A BIGGER KICK

The gas tax is the only one that has matched inflation. Since 1951 the taxes on beer, wine, and spirits have gone up just once.

HOW WOULD A VAT affect the economy? By making consumption costlier, it should stimulate savings and investment. But if the VAT tilts toward savings too quickly, the economy could head straight into a recession. The consensus among economists is that the economy could safely absorb a deficit reduction of $35 billion to $50 billion a year led by a VAT.

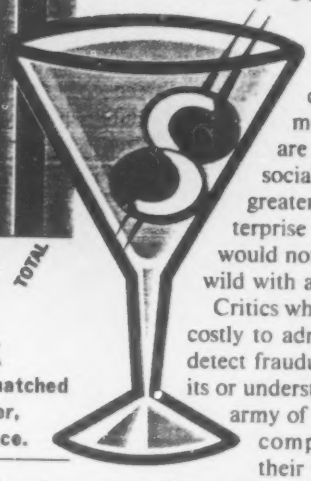
Forty-three countries have a VAT. The U.S., Japan, and Canada are the only major industrial powers without one. Why? For some economists the VAT is too regressive, capturing a larger share of the incomes of poor people than of affluent ones, since lower-income people have to spend a much larger proportion of their earnings for goods and services. Big earners are able to save and invest more of their pay.

Other critics say that the VAT helped create the big governments in Europe. They claim that the tax is a money machine that would make it too easy for Congress to raise and spend vast sums. Each percentage point of a broad-based VAT would haul in about $25 billion in the U.S. Most governors and mayors are against a VAT, howling that sales taxation is a local prerogative. And budget-conscious bureaucrats fear the expense of setting up and running a new tax.

In Europe, progressive tax measures elsewhere in the system counter the VAT's regressiveness. Vito Tanzi, director of fiscal affairs for the International Monetary Fund, says, "Equity should not be the concern of each tax. It should be the concern of tax policy as a whole."

One way to help American families hurt by a VAT would be to expand the earned-income credit. Say a family of four earns about $12,000 a year—what the government considers the poverty level. Assuming they spend all their money, a 5% VAT would cost the family $600 a year. By using the earned-income credit, the entire sum could be credited to them when they file their income tax return. Says Henry J. Aaron, a senior fellow at the Brookings Institution: "For very little cost—5% to 10% of the VAT you raise—you could protect low-income households."

Certainly it is no coincidence that the big governments of Europe all have the VAT money machine in their service. But telling the chicken from the egg is not so easy. As Alan A. Tait, the IMF's deputy director of fiscal affairs, points out, "Some countries that took on a VAT have expanded their public sector. But the evidence is that countries with large public sectors look for a buoyant tax that can satisfy it." Instead of creating big governments, the VAT allows those countries to support the housing, medical care, and other domestic programs that are part of the European social contract. With a greater stress on private enterprise in the U.S., Congress would not be compelled to run wild with a value-added tax.



Critics who say a VAT would be costly to administer are right. To detect fraudulent claims for credits or understatement of prices, an army of auditors must invade companies, inspecting their inventories and shipments. Four years ago the Treasury Department estimated that the IRS would need 20,000 new inspectors at a cost of $700 million a year to police a VAT. Skimping on the detail work would be expensive too. At 31% of government revenues, Chile's VAT income is proportionately the highest in the world. Neighboring Argentina's VAT collections are only 14% of government revenues, even though its VAT rate is almost the same as Chile's. The difference? "Chile has done a fantastic job of control," says the IMF's Tanzi. (The repressive Pinochet government is well known for its control.)

States regard a national sales tax as a country lord views a game poacher, so Congress would have to coax those governments to coordinate their sales taxes with a federal VAT.

What might help the VAT fly? Former deputy treasury secretary Charls Walker, Mr. VAT to tax policy aficionados, champi-

ons a simple approach. Instead of keeping invoices that show how much VAT it has paid and received, necessitating a separate set of books, each company would define its value added as the difference between revenues and purchases, figures easily pulled from income tax accounts. Companies would calculate their VAT on a few extra lines at the bottom of the corporate income tax form—no fuss, no auditor army.

TO ENTICE states to coordinate their sales taxes with a federal VAT, Walker would allow them to ride piggyback. That is, in each state the IRS would collect the sum of the federal VAT plus the state sales tax, and would then give the state a check for its share. The state would save the cost of running its sales tax bureaucracy, putting it ahead of the game. A constitutional amendment would let Congress raise the VAT rate only if a majority of at least two-thirds approved.

Walker would also insist that the VAT be levied at a single rate, with no exempt products or services. Multiple rates not only increase the complexity of a VAT, but also lead to bizarre government dilemmas. In France, where medical products are taxed at a very low rate, an extended parliamentary debate focused on whether Head & Shoulders shampoo is a cosmetic or a medicine. (The decision: It is a cosmetic.) In Britain the VAT on children's clothes was once lower than that on adults', so the customs department had a long list of what qualified for the favored rate, measurements and all. When the miniskirt came into vogue, stores tried to pass it off as kidswear.

Simplicity notwithstanding, the Walker variation creates as many problems as it solves. Companies with high labor costs and low raw material outlays—advertising agencies, publishing houses, and software firms, for example—are likely to fight the tax, figuring that it will be harder for them to pass through the costs than for manufacturing companies.

Almost every country with a VAT has exemptions for special groups, such as farmers, or multiple rates so that such necessities as food are treated more gently than luxuries. Walker's VAT can't work with multiple rates. Accountants would need to keep track of which supplies a company bought at each rate, resulting in the European invoice system that he is trying to avoid. Says J. Gregory Ballentine, national director for tax analysis at Peat Marwick Main: "The VAT that Congress enacts will have all sorts of warts, like the income tax has. Congress and the Administration won't suddenly become purists. We'll have favored rates."

Finally, Walker's proposal that the feds pay the administrative costs for local sales taxes might not be enough to get the states into line. Not every state looks at its tax administration as a burden, says the Hoover Institution's Charles McLure, a former Treasury Department official, "I think you're talking about turf and influence, and even patronage in some states."

Robert Reischauer of the Brookings Institution has an idea for another kind of VAT. He would use a 7% to 10% VAT to pay only for medical programs—Medicare and Medicaid would be combined in a new health insurance trust fund. His strategy would also make Medicaid a federal baby, removing a $24 billion load from the states. So the antiregressives would see VAT money going toward progressive spending, the money machine Luddites would see the VAT tied to a restricted set of programs, and the states would be rid of a heavy cost.

Reischauer's strategy does not take into account that medical costs are rising faster than inflation, so the VAT would have to grow to keep up with them. But the proposal pays attention to political realities and may be able to speed the VAT's adoption.

VATS AROUND THE WORLD

COUNTRY year established	RATE	PERCENT OF 1986 GOV'T REVENUES
South Korea 1977	10.0%	21%
Sweden 1969	12.9%	17%
West Germany 1968	14.0%	13%
Britain 1973	15.0%	16%[1]
Mexico 1980	15.0%	17%[1]
Italy 1973	18.0%	13%
France 1968	18.6%	21%[1]
Belgium 1971	19.0%	15%[1]
Chile 1975	20.0%	31%
Netherlands 1969	20.0%	15%
Norway 1970	20.0%	20%
Denmark 1967	22.0%	23%
Ireland 1972	25.0%	19%[2]
Ivory Coast 1960	25.0%	8%[2]

[1]1985 figures. [2]1984 figures.

VAT countries have big governments. In the median European country, government spending is 42% of gross domestic product—vs. 24% in the U.S. and 17% in Japan.

BUSINESS LEADERS feel better about the VAT than about most other taxes. The Kellogg School of Northwestern University polled the chief executives of 120 U.S. companies with at least $1 billion in revenues, and found that more of them, 48%, recommended a VAT than any other tax option. Chrysler's Lee Iacocca, who is a member of the National Economic Commission, has long favored a VAT. His competitors at Ford Motor do too, as a lesser evil than a corporate tax rise or a gasoline tax. Ford chief economist Martin Zimmerman worries that if the deficit isn't cut, interest rates will rise and investment will fall: "We don't want to cut investment, so reluctantly we conclude that we must cut consumption." Ford's tax department, which is familiar with the accounting done by the company's European subsidiaries, does not think a multistage VAT would cost much to keep track of.

Congress may be ready to listen. Republican Congressman Bill Frenzel, a member of the commission and not a fan of tax increases, says, "The broad-based consumption tax intrigues a number of people and has people running around Washington trying to promote it. It is not well known in this country . . . [but] it is a possibility if Congress agrees with [House Ways and Means Chairman] Rostenkowski not to tinker with income tax rates."

So if politicians want to use consumption taxes to balance the budget, the VAT may be the answer. The IRS will need about two years to get ready for a VAT if Congress approves it, and the government will surely need some cash before that. An overhaul of gasoline and sin taxes can help bridge the revenue gap until a VAT is ready to roll. F